Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Directorate of
Intelligence

~~Secret~~

25X1

file copy
do not remove

5 articles
27 briefs

International Economic & Energy Weekly

25X1

14 September 1984

~~Secret~~

DI IEEW 84-037
14 September 1984

Copy 693

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Page Denied

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

International Economic & Energy Weekly [redacted] 25X1

14 September 1984

[redacted] 25X1

25X1

Comments and queries regarding this publication are welcome. They may be directed to [redacted] *Directorate of Intelligence* [redacted] 25X1
[redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0 25X1

[redacted]

International Economic & Energy Weekly [redacted]

25X1

Synopsis

25X1

1 **Perspective—*South American Debt, Trade, and Protectionism*** [redacted]

In recent weeks a spate of articles have appeared in the world press claiming that the immediate debt crisis is over. While we agree that conditions have improved for some of the debtors, we see problems on the horizon. [redacted] 25X1

15 **South America: Tenuous Financial Balance** [redacted] 25X1

Higher interest payments, continued tight access to new credit, and—in most cases—sagging exports will mean most South American debtor nations will encounter deteriorating financial conditions through the rest of this year. We believe that at least some financial rescue programs will have to be revised; we also acknowledge a chance that the programs could begin to unravel. [redacted] 25X1

19 **Brazil: Lender Confidence Improving** [redacted] 25X1

Trade and payments improvements over the first seven months of this year have led to renewed confidence by foreign lenders and the IMF in Brazil's ability to deal with its debt problems. We believe the government—with a presidential election scheduled next January—may permit a moderate loosening of credit or wage controls, but will seek to comply as much as possible with its adjustment program in hopes of getting favorable terms during debt talks this fall. [redacted] 25X1

23 **Key Debt-Troubled LDCs: Trade Surplus Widens** [redacted] 25X1

The trade surplus for the 10 key debt-troubled LDCs climbed in the first half of 1984 to an annual rate of over $44 billion, compared with $31 billion in 1983. [redacted] 25X1

27 **International Financial Situation: Political Update** [redacted] 25X1

Major antigovernment demonstrations occurred this past month in the Philippines, Chile, and Argentina, but they were not as effective as opposition groups had hoped. In contrast, a three-day worker takeover of Bolivia's largest factory was one of the most serious labor incidents in that country in more than a year. [redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

25X1

29 **Political Unrest and Economic Conditions: A Preliminary Look** 25X1

We have found that general economic conditions can worsen substantially without sparking unrest, although we believe that government measures designed to address economic problems can provide a rallying point for public discontent. 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

[redacted] 25X1

International Economic & Energy Weekly [redacted] 25X1

14 September 1984

Perspective

South American Debt, Trade, and Protectionism [redacted] 25X1

In recent weeks a spate of articles have appeared in the world press claiming that the immediate debt crisis is over. Much of the analysis focuses on the flexibility shown by bankers in granting a multiyear rescheduling to Mexico with reduced interest spreads and fees and the likelihood that similar arrangements will be obtained by Venezuela and Brazil. Moreover, Mexico and its creditor banks have worked out a procedure for IMF monitoring of the economy without strict conditionality under a Fund-supported program. Behind much of the confidence that progress is being made in resolving LDC financial problems lies a dramatic improvement in the trade performance of debtor nations. [redacted] 25X1

While conditions have improved for some of the debtors, there are potential problems on the horizon. For one thing, the improvement in trade performance will not necessarily be sustained. We believe, for example, that imports have already been pared about as much as possible and that political pressures are mounting to allow some import increases as a means of restoring growth. This is especially the case in Argentina, Chile, Peru, and Bolivia. On the export side, recent gains will be difficult, if not impossible, to repeat in the face of lower prices for key export commodities and the expected slowdown in the OECD recovery. [redacted] 25X1

Another problem facing Latin debtors is the possibility of increased protectionism in their export markets. If, as many expect, the OECD recovery slows, many LDCs fear that the industrial nations will be more willing to protect domestic markets and jobs. Earlier this week, Colombian President Betancur, in a letter to Latin Presidents in preparation for the 13 September Mar Del Plata meeting on the financial crisis, stated that protectionism and other "external" factors are largely responsible for the Latin American debt crisis. While Latin political leaders probably realize that this overstates the impact of protectionism, the issue could become a rallying point for increased debtor cooperation. [redacted] 25X1

Although undoubtedly relieved by the US decision not to restrict copper imports, we believe the South American debtors are extremely sensitive to developed country decisions to close export opportunities. A number of Latin exports—soybean meal, textiles, and steel—already face restraints in Western Europe, and South America has had only limited success in cracking the Japanese market. With a US decision on steel imports looming next week, South American governments will be looking for signs of industrial country support for the current debt strategy, which relies heavily on GDC export growth. [redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Renewed external shocks also could quickly cause problems for the financial rescue programs. We remain particularly concerned that another increase in US interest rates—already a politically sensitive subject in Latin America—could undermine incentives to continue tough adjustment. Moreover, any perceived intransigence on the part of banks to providing new money to absorb these shocks would again put the major debtors behind the financial eight ball. Under these conditions, Latin governments—including the moderates—could begin to rethink their cooperation with IMF-endorsed programs. With their economies still depressed and facing political pressure to lift austerity, we believe the debtors may be less willing to meet scheduled repayments. Instead, the debtor governments may decide to impose limits on repayments and tie debt servicing to their ability to export. [redacted] 25X1

[redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Briefs

Energy

OPEC Oil Production Tumbles

[redacted]

[redacted] oil production in OPEC countries in August averaged 15.7 million barrels per day. At this level, production will slip below the cartel's ceiling for the first time this year. Iran's Oil Minister claims Tehran voluntarily has cut its output by 50 percent as a gesture toward OPEC unity. Marketing problems caused by Iran's refusal to discount its crude by more than 80 cents per barrel probably caused production to fall by about 700,000 b/d. [redacted] 25X1 25X1 25X1

OPEC's efforts to limit production to defend the benchmark price of $29 per barrel will temporarily ease downward pressure on prices. Prospects for some increase in world demand later this year and Saudi willingness to absorb any further slack in the market should stabilize prices during the rest of the year. Nonetheless, some producers will continue to discount prices to support their sagging oil exports. [redacted] 25X1

OPEC: Crude Oil Production, 1984 *Million b/d*

	1984 Quota	First Half	July [a]	August [a]
Total	**17.5**	**18.2**	**17.7**	**15.7**
Algeria	0.725	0.7	0.7	0.6
Ecuador	0.2	0.2	0.2	0.2
Gabon	0.15	0.2	0.2	0.2
Indonesia	1.3	1.5	1.4	1.3
Iran	2.4	2.3	2.5	1.8
Iraq	1.2	1.1	1.2	1.2
Kuwait	1.05	1.0	0.9	0.9
Libya	1.1	1.2	1.1	1.0
Neutral Zone [b]		0.5	0.4	0.3
Nigeria	1.3	1.4	1.1	1.1
Qatar	0.3	0.4	0.4	0.3
Saudi Arabia [c]	5.0	4.9	4.5	4.0
UAE	1.1	1.3	1.3	1.1
Venezuela	1.675	1.7	1.7	1.7

[a] Preliminary.
[b] Production is shared equally between Saudi Arabia and Kuwait and is included in each country's production quota.
[c] Saudi Arabia has no formal quota. It acts as swing producer to meet world market requirements.

[redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Iranian Oil Exports Continue at Reduced Rate

Exports of crude oil continue from Iran's main oil-export terminal at Khark Island, contrary to recent press reports. Although it was damaged by an Iraqi airstrike on 24 June, the Sea Island loading facility on the west side of the island is operational. Iranian oil exports fell from 1.9 million barrels per day in July to 1.0-1.4 million barrels per day in August, probably because of marketing problems and Iran's alleged intention to cut output to help stabilize oil prices. Iran can use a jetty on the east side of the island, and Tehran probably is avoiding use of the Sea Island facility, which is more vulnerable to Iraqi attacks.

25X1
25X1

Irish Gas Pipeline Project Canceled

Northern Ireland Industry Minister Adam Butler last week terminated a deal to buy natural gas from the Republic of Ireland's Kinsale field in the Celtic Sea. Butler stated that the project was no longer economically viable at the previously negotiated wellhead price of $4.00 per million Btu and that recent marketing studies showed a major decline in Northern Ireland's potential demand. Under an agreement signed in 1982 by the British and Irish Governments, Kinsale gas was to be landed near Cork, piped through the Irish gas system, and reach Belfast through a proposed 160-kilometer pipeline from Dublin.

25X1
25X1

Australian Coal Exports Up

Coal exports—Australia's largest export earner—are headed for another record year. Coal shipments were up 10 percent in the first half compared with year-earlier levels. Steam coal exports rose significantly as a result of a one-third increase in shipments to Japan and a nearly 30-percent rise in shipments to Western Europe. The average price of steam coal exports to Western Europe in June was 12 percent below year-earlier levels. Both prices and shipments of coking coal remained relatively constant, as a decline in exports to Japan was offset by increased shipments to Western Europe. If present trends continue, total Australian coal exports could exceed 68 million metric tons this year—surpassing the recordbreaking 1983 level of 61 million tons. At these volumes, Australian coal exports possibly could equal or exceed coal exports by the United States—historically the world's largest coal exporter.

25X1
25X1

Iraqi-Saudi Pipeline Talks

The US Consulate in Dhahran reports that the Saudi Government is committed to allowing construction of the portion of the Iraqi-Saudi pipeline between Az Zubayr and the East-West petroline. Moreover, the Saudis are considering subsidizing the project through a long-term loan with very generous terms. Riyadh has delegated responsibility for its interests in this portion of the pipeline to Aramco.

25X1
25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Page Denied

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Despite its reservations, Riyadh continues to pursue the pipeline with Iraq. If a firm agreement and financing are secured in the next few weeks, construction could begin before the end of the year. The pipeline could be operational by early 1986. [redacted] 25X1

Petroleum Exploration in Chad

[redacted]

Esso officials last week stated that they plan to resume exploration activities in southern Chad by early 1985. N'Djamena has assured Esso that it will make available whatever resources are needed to ensure the safety of personnel and equipment. According to the new commander of the French armed forces in the Central African Republic, however, recent dissident activity in southern Chad makes it unlikely that Esso will be able to begin work on time. The consortium that Esso now heads ceased operations near Lake Chad and in the southern regions in 1979 because of deteriorating security. President Habre has consistently pushed for development of the concession, which produced some oil but no major discoveries. Since Chad imports about 2,000 b/d, the development of even a small field would prove significant to the local economy. [redacted] 25X1

25X1

[redacted]

25X1

International Finance

Progress on Mexican Debt Rescheduling

[redacted]

Final details of Mexico's multiyear rescheduling package were completed last weekend, and Mexico City and its bank advisory board have begun their campaign to sell the package to over 500 other creditors this week. [redacted] 25X1
[redacted] under the rescheduling agreement Mexico will 25X1
submit the "unaltered results" of semiannual IMF reviews to a bank advisory board through at least 1990. The first report each year will cover Mexico's economic program to determine if it is compatible with Mexico's foreign payments position and debt-servicing obligations, while the second will evaluate Mexico's performance against the targets it sets for itself. [redacted] 25X1 25X1
[redacted] Mexico City will prepay $1 billion of its 1983 $5 billion loan at year- 25X1
end even if [redacted] the rescheduling agreement is 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

not completed. In this case the prepayment would be deposited in an escrow account and disbursed to the banks when the final agreement is signed. [redacted] 25X1

Peru's Perilous Financial Situation

Finance Minister Benavides has publicly acknowledged that Peru will be unable to meet the IMF performance targets this year and wants to secure easier terms. [redacted] With political pressures growing to relax austerity measures before the elections next April, President Belaunde will have great difficulty in upcoming negotiations with the Fund. Peru's large reserves of close to $1 billion—more than six months' worth of imports—enable the government to bargain hard for concessions from the IMF. A protracted delay in reaching agreement, however, would jeopardize the pending commercial debt-refinancing package, cut access to foreign credit, and—if Lima misses the 5 October interest payment—may force US banks to begin placing Peruvian loans in "nonperforming" categories. [redacted] 25X1 25X1 25X1

Mozambique To Join IMF and World Bank

Mozambique announced this week that it will join the IMF and World Bank later this month, according to press reports. Maputo had been negotiating on possible membership with the two groups since last April. IMF membership probably would facilitate the rescheduling of $1.4 billion worth of debts that Mozambique owes to Western governments and banks. [redacted] 25X1 25X1

Pressure on Indonesian Rupiah

A depreciation of the rupiah in recent weeks has led to large-scale conversions of assets into dollars. Although it is not clear why the rupiah has fallen—government officials claim that the decline does not reflect worsening foreign payments—the strength of the US dollar probably has played a role. The central bank delayed intervening to avoid a rundown of reserves, but public criticism spurred the authorities to slow the decline. Jakarta remains reluctant to announce another major devaluation because of the inflationary potential. Indonesian officials have tried to reassure businessmen that the situation is under control to avoid a loss of confidence that could lead to serious capital flight. [redacted] 25X1 25X1

Global and Regional Developments

Global Protectionism on Steel Increasing

A decision by the US Government on whether protection should be granted to the domestic steel industry—expected sometime next week—comes at a time when idle steel capacity in the non-Communist world is over 30 percent and protectionism is mounting steadily. We believe capacity utilization of the non-Communist steel industry probably will remain under 80 percent for some time. [redacted] 25X1

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Excess capacity has led many developed and developing countries to place or consider restrictions on imports:

- The EC has minimum import prices and bilateral agreements with 14 countries to limit steel imports. Austria, Sweden, Norway, Finland, and Spain have similar accords to limit steel imports from the EC. Portugal has import controls.
- Colombia, India, Mexico, and Venezuela authorize national agencies to regulate steel imports on the basis of the availability of domestic steel products. Brazil also restricts imports and applies a tariff to those products that are permitted entry.
- South Africa is considering a request for import protection for a large number of steel products.
- In April, India tightened controls on imported steel.
- In addition to current import controls. New Zealand has promised its local steel industry protection if its share of the domestic market falls below current levels.
- The Australian Steel Industry Authority recommended that tariff preferences given to developing countries be withdrawn for Brazil, South Korea, and Taiwan.
- Even in Japan, where costs are low and no restrictions exist, protectionist pressure is beginning to build against producers from developing countries.

25X1

Japanese-US Discussions on Multilateral Trade Negotiations

In discussions with US officials on a new round of multilateral trade negotiations, Japanese representatives last month expressed concern over the US stance on the role of less developed countries in such negotiations. The Japanese are committed to seeing that the LDCs become more involved in all facets of the talks, from the preparations to the actual negotiations. Tokyo is especially concerned that the US's "conditional most favored nation" concept and US proposals to focus the negotiations on such issues as services and high technology—which are not of immediate interest to LDCs—will act to reduce the number of LDC participants. The talks were part of preliminary preparations for a new trade round—proposed by the United States and Japan at the London Economic Summit—and will continue next week at a ministerial trade conference in Brazil.

25X1

25X1

National Developments

Developed Countries

Possible South African Mine Strike

Black miners at eight of South Africa's 34 gold mines have announced they will strike on Monday if their wage demands are not met. Last year the eight mines accounted for 25 percent of South Africa's gold production and about 10 percent of its foreign exchange earnings. The mineowners have stated that they will replace striking miners and that they will hold to their offer of a 14-percent wage increase—slightly more than the prevailing 12-percent

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

inflation rate. The National Union of Mineworkers is demanding an 18-percent wage increase. The union, which represents less than 20 percent of South Africa's black miners, claims that many nonunion miners will support the strike. [redacted] 25X1

Rome Raises Discount Rate

[redacted] 25X1

The Bank of Italy, concerned that excessive growth of bank credit was worsening the trade deficit, last week raised the discount rate a point to 16.5 percent. The move follows a freeze last month on the net foreign indebtedness of banks at their level as of 30 June. Italy's trade deficit was $3.8 billion for the first six months of 1984—a $1.4 billion jump from the same period last year. The Italian business association Confindustria has criticized the interest rate increase as premature and as a blow to Italy's economic recovery. If Italy's external accounts erode further, however, Rome certainly will continue to tighten credit and foreign exchange controls—particularly given the government's difficulties in getting its budget in line. [redacted] 25X1

Less Developed Countries

Philippine Typhoon Damage

[redacted] 25X1

Typhoon Ike last week caused widespread disruptions to communications and commerce, destroyed electric power lines, and caused $100 million worth of direct economic damage. In the hardest hit Surigao provinces of northeastern Mindanao, over 1,500 deaths were recorded, 80 to 90 percent of the coconut trees were damaged, and 80 to 90 percent of the schools were destroyed or damaged. Similar reports were received from Bohol and Cebu provinces. Electricity is not expected to be restored for several months, and coconut trees—a major source of income for farmers—normally take five to seven years to recover. [redacted] 25X1

Government relief efforts are likely to be complicated by budgetary problems and the rural Communist insurgency. Damage from the storm forced Manila to turn to foreign governments for disaster assistance—a step the government has resisted in the past. At the same time, President Marcos authorized the release of $7 million in government funds to cope with the damage. Although the guerrillas probably will not directly interfere with relief efforts to retain the good will of the people, they may attempt to interdict government supplies to mount their own relief program in outlying areas. [redacted] 25X1

Food Crisis in Chad

[redacted] 25X1

Continuing drought, pillaging of food stocks by Army troops, and government corruption have aggravated Chad's acute food shortage. After the failure of this spring's grain harvest because of drought, grain reserves in the south—the country's breadbasket—are depleted. Despite large infusions of food aid from abroad, lack of storage facilities and transportation problems are likely to result in an estimated shortfall of 136,000 tons. Food supplies also are being diverted into the black market, while soldiers have pillaged many of the World Food Program warehouses. [redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Burma Curbs Rice Exports

Burma probably will be forced to delay rice exports following recent civil unrest over shortages in domestic rice supplies. The government is diverting rice destined for the export market to the domestic market, and is counting on the harvest in December to make up for the exports shortfall. The US Embassy estimates, however, that the December crop will be down by 4 percent, leaving only about 500,000 metric tons for export after domestic consumption. After meeting deferred export obligations of 150,000 metric tons, Burma—the world's fourth-largest rice exporter—may have as little as 350,000 metric tons available for export next year—a 50-percent decline from this year's total and the lowest level since 1978.

25X1

25X1

25X1

South Korean Rice Crop Losses

Severe flood damage to the South Korean rice crop last week could force Seoul to increase imports from the United States. Losses thus far are estimated at 100,000 tons, according to estimates by the US Department of Agriculture, but the full extent of damage will not be known for several weeks. The crop will be susceptible to further damage until the harvest next month. South Korean rice stocks are inadequate, and the losses may require Seoul to increase purchases from the United States well above the average of 200,000 tons in each of the past three years. Large South Korean rice stockpiles have deteriorated in recent years and are thought to be chiefly of a type that has low acceptability among Koreans. The type of rice Koreans prefer is expected to be in tight supply next year outside the United States.

25X1

Petroleum Price Increase in the Dominican Republic

The government's recent petroleum price hike of 20 percent could increase revenue by as much as $40 million annually, but further austerity measures will be needed to qualify for IMF funding. The reduction of petroleum subsidies was a major IMF requirement for an unofficial, interim adjustment program. This temporary program will remain in effect until a formal standby agreement can be put into place, perhaps as early as first quarter 1985. The Fund nonetheless requires additional belt-tightening, including further cutting in public spending and restructuring of inefficient government-owned enterprises. Meanwhile, the government is counting on the interim Fund accord—which provides no new IMF credit—to attract, unrealistically in our view, sizable new aid and investment. Initial public reaction to the price hike has been muted, largely because of the widespread deployment of troops.

25X1

25X1

Problems in Zaire's Mining Sector

GECAMINES—Zaire's huge mining parastatal and principal source of export earnings—is encountering serious production, transportation, and marketing problems. According to the US Embassy, 1984-85 production targets are in jeopardy because of inefficiencies in the copper mines and problems in moving ore to refineries. Reduced export revenues resulting from a deteriorating rail system and low water levels on major rivers also have made it difficult for GECAMINES to make payments to creditors. In addition, a bureaucratic

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

impasse over dissolving SOZACOM—Zaire's inefficient marketing parastatal—may disrupt sales operations in the coming year. GECAMINES provides about 50 percent of the government's foreign exchange earnings and 22 percent of its total revenue. A decline in payments to the government from GECAMINES would threaten Zaire's ability to meet IMF-mandated guidelines and its hopes of moving from austerity to growth-oriented policies in 1985. 25X1

Mexico Loosens Foreign Investment Policy

25X1

To improve the climate for foreign investment, the Mexican Government recently granted majority foreign-owned firms permission to raise money in domestic capital markets, rather than borrowing abroad primarily from their parent firms. Mexico also moved to allow brokerage houses to trade bonds and other commercial paper of companies not listed on the Mexican stock exchange. We believe the de la Madrid administration is trying to more carefully monitor the commercial paper market, although the government is emphasizing the benefits from lower interest rates and a bigger securities market. In addition, Mexico City has announced limitations on the time the foreign investment commission can spend reviewing applications, to overcome potential investors' complaints that processing is slow. According to the financial press, many potential investors remain skeptical of such marginal policy adjustments and believe that Mexico City will tighten regulations once economic recovery is under way. 25X1

Communist

Soviets Announce Retail Price Reductions

The USSR has reduced prices on selected consumer goods for the fourth time in 18 months. The latest cuts, effective 1 September and ranging from 17 to 30 percent, apply mainly to clothing, synthetic fabrics, and certain types of medicines. According to Soviet officials, the reductions will save Soviet consumers about $2.5 billion annually—somewhat less than 1 percent of the value of total yearly sales in Soviet state retail outlets. 25X1

The move is aimed at winning favor for the regime. Government spokesmen have stressed that the lower prices will raise the costs of subsidies in the state budget. Soviet officials have played up the role of subsidies in promoting consumer welfare in several recent statements. Many of the goods whose prices were just cut are essential items, although past Soviet price cuts have often been motivated by unwanted accumulation of goods spurned by Soviet consumers at going prices. 25X1

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Soviet Go-Ahead for Major Siberian River Diversion Project

[redacted]

According to a Soviet press report, the State Planning Committee (Gosplan) has ordered the Ministry of Land Reclamation and Water Resources to complete plans "as early as 1986" to divert water from Siberian rivers to water-short Central Asia. The project, probably the most ambitious of its kind in the world and a controversial one in the USSR, calls for construction of a 2,400-kilometer canal to link Siberia's Ob and Irtysh rivers with the Aral Sea Basin and other Asian regions of the USSR. The Aral Sea, the world's fourth-largest lake, is drying up rapidly because water from the two rivers feeding into it has been diverted for irrigation. The report said the project would take 12 years to complete but did not say when construction would begin. [redacted] 25X1 25X1

The decision to push ahead now after decades of debate apparently stems in large measure from an exhaustive study that supposedly lays to rest fears that the project would cause damage to the environment. Supporters for the project contend that waters from the canal will:

- Lead to a large increase in the amount of land devoted to grain and other foodstuffs growing in Kazakhstan and central Asia.
- Stimulate exploitation of other resources and industrial development that will ease the underutilization of manpower in the region.

The press report did not give a cost estimate, but earlier Soviet statements indicated that outlays—although still not assured—could exceed $35 billion. [redacted] 25X1

Prospects for Chinese Grain Purchases

[redacted] China does not intend to renew long-term grain-purchase contracts with Argentina, Australia, Canada, or the United States. Press reports indicate that Chinese officials do not want to sign any new long-term agreement because of abundant Chinese harvests. Agreements with the United States, Australia, and Argentina end this December, and with Canada next August. Indications are that Beijing will continue to play a role in the grain market without signing long-term agreements. China's opposition to the new US textile regulations will hamper possible renewal of the US-China agreement. [redacted] 25X1 25X1 25X1

Vietnamese Export Growth Slows

[redacted]

Recently released Soviet and Vietnamese trade statistics show that Hanoi's export earnings rose only 10 percent in 1983 to $650 million. This is a sharp decrease from the 26-percent growth of the previous year and is well below the 60-percent increase in export earnings called for in Vietnam's economic plan. The slowdown occurred in exports to both Communist and non-Communist countries, and Vietnamese press reports indicate that the slower growth—which resulted largely from Hanoi's reimposition of central control over the export sector—is continuing this year. As a result, Vietnam will remain unable to make payments on its foreign debt. [redacted] 25X1 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Proposed Diversion of Northward-Flowing Rivers

703229 9-84

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Laos Tightening Control Over the Economy

According to the US Charge in Vientiane, Laos has stepped up its efforts over the past several months to build a socialist economic system. The government is accelerating the pace of agricultural collectivization—most farmland is still privately owned—and plans to establish at least one agricultural cooperative in each canton within a year. This spring Vientiane also sharply increased taxes and license fees for private businesses and imposed stiff penalties for violations of price-control regulations. In addition, Vientiane restricted foreign currency transactions and increased customs duties significantly. Although the government is stressing the voluntary nature of the collectivization program, the crackdown on the private sector is likely to hinder efforts to revive the stagnant economy. Attempts to force farmers to join collectives in 1976-79 caused many to flee to Thailand and contributed to a sharp drop in agricultural production.

25X1

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

South America: Tenuous Financial Balance [redacted] 25X1

Higher interest payments, continued tight access to new credit, and—in most cases—sagging exports will mean most South American debtor nations will encounter deteriorating financial conditions through the rest of this year. Although the largest debtors—Brazil, Argentina, and Venezuela—will have improved trade surpluses, financial strains among the Andean debtors and even Argentina will continue to grow. Political pressures for growth—especially in Argentina, Chile, Peru, and Bolivia—may encourage some deliberate debt-servicing interruptions. We believe that at least some financial rescue programs will have to be revised; we also acknowledge a chance that the programs could begin to unravel. [redacted] 25X1

Financial Disappointments

To improve their payments positions, South American debtors counted on lower interest rates and on improved commodity prices and world recovery to increase exports. In turn, governments expected bankers to support the region by restructuring maturing debt and extending new money. Despite some trade successes, South American debtors—Argentina and the Andean countries, in particular—are facing increasing liquidity strains:

- Agricultural and mineral commodity prices actually fell during the first half, cutting into expected export recovery.
- A 2-percentage-point rise in world interest rates increased the region's debt service burden.
- New lending has been difficult to obtain as debtors encountered problems in implementing or complying with IMF-supported stabilization programs. [redacted] 25X1

South America: Trade Balance and Interest Payments *Billion US $*

	1983		1984 [a]	
	Trade Balance [b]	Interest Payments	Trade Balance [b]	Interest Payments
South America	**18.4**	**21.0**	**23.4**	**23.9**
Big Debtors	18.1	17.2	23.4	19.5
Argentina	3.5	5.5	4.0	5.9
Brazil	6.5	9.5	11.0	11.0
Venezuela	8.1	2.2	8.4	2.6
Small Debtors	0.3	3.8	0	4.4
Chile	1.0	1.6	0.6	1.8
Colombia	−1.8	1.0	−0.6	1.0
Ecuador	0.8	0.2	0.7	0.5
Peru	0.3	1.0	−0.8	1.0
Bolivia	NEGL	NEGL	−0.1	0.1

[a] Estimated.
[b] Estimates derived from f.o.b. data.

[redacted] 25X1

Uneven Trade Performance

On the basis of government statistics, we estimate South America's trade surplus reached $13 billion during the first six months of 1984, a 50-percent improvement over the comparable period in 1983. The gains, however, were concentrated among the region's three largest debtors—Brazil netted $6 billion, Venezuela $4 billion, and Argentina $3 billion. The trade improvements of the smaller

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Andean debtors—Bolivia, Chile, Colombia, Ecuador, and Peru—were limited by depressed commodity prices.

The trade success of the larger debtors has eased payments pressures for Brazil and Venezuela, but has not alleviated Argentina's financial problems. Rising exports and access to foreign credit have allowed Brazil to replenish its foreign exchange reserves to over $5 billion, to eliminate arrearages, and to keep current on foreign debt payments, according to US Embassy reports. Similarly, Venezuela has increased reserves to over $12 billion. Its sizable trade surplus this year has enabled Caracas to begin settling past-due debt service payments, according to US Embassy reports. Argentina—despite a substantial trade surplus built up by tough import and exchange controls—still needs $3-4 billion in new lending to eliminate arrearages, and it must negotiate debt rescheduling under IMF auspices to resolve payment problems.

The small trade surplus recorded by the Andean debtors has meant continued cash strains. With their access to new external credits still very tight, the Andean debtors have chosen different approaches in dealing with liquidity strains. Bolivia suspended all debt servicing to foreign bankers in May, and Peru has missed interest payments since June, according to US Embassy reports. Chile has obtained a $780 million loan in support of its adjustment program, but bankers indicate that Santiago has also drawn on trade credits to finance a 23-percent increase in imports to support its economic reactivation efforts. Although Colombia reduced its trade deficit, it drew down reserves by 4 percent to $1.8 billion by early August. Despite an increase in oil exports, Ecuador has had to use arrearages to fend off cash strains produced by bankers' decisions not to lend new money until the new administration was installed in August and a revised IMF program was negotiated.

Pressures To Intensify

We expect added pressure on the region's payments accounts through the second half of 1984. Higher interest rates are likely to add $500 million to South America's debt service in the fourth quarter. We believe that Brazil and Venezuela will be able to absorb the increased interest charges, but Argentina and the Andean debtors will have a much harder time adjusting to the rates. Moreover, according to the financial press, higher interest rates are restricting inventory demand for commodities, placing downward pressure on commodity prices. The Andean countries and Argentina—highly dependent on mineral and agricultural exports—face the double punch of meeting higher interest payments with somewhat reduced export revenues. Simultaneously, these countries are facing growing domestic political pressure to increase imports to spark economic recovery. 25X1

Meanwhile, press and US Embassy reports indicate that tougher austerity measures required to prevent payments shortfalls are becoming politically less acceptable in Argentina and the Andean countries: 25X1

- Argentine President Alfonsin believes that debt servicing must be reconciled with the need to maintain social peace by creating more jobs and raising real wages, according to various sources.
- Chile's President Pinochet feels economic revitalization is crucial to prevent a resurgence of domestic opposition to his government, according to US Embassy reports.
- In Peru, President Belaunde is facing election-year pressure to relax austerity, and thus has opted in the last couple of months to increase public spending, despite commitments to the IMF.
- Although Colombian President Betancur's recent statements indicate the need for adjustment, he continues to delay adopting an IMF program for fear of a domestic backlash. 25X1
- Only Ecuadorean President Febres-Cordero has publicly announced a willingness to continue tough austerity to resolve debt difficulties. 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

[redacted] foreign creditors are still reluctant to lend money to these financially pinched debtors. Bankers continue to emphasize that compliance with IMF-backed stabilization plans is required for financial support:

- Argentina will be unable to get new loans to close its projected payments gap until it obtains an IMF-support agreement, according to various sources.
- Chile faces a prospective cutoff in credit this year—and will be denied new lending next year—unless it complies with its IMF-supported program, according to US Embassy reports.
- Peru probably will not obtain a debt-refinancing package or be able to draw on $100 million in embargoed loans until it hammers out another agreement with the Fund.

[redacted]

- New credits for Ecuador, the US Embassy reports, may not be forthcoming until February 1985, requiring continued resort to arrearages—already at $300 million. [redacted]

The Danger

Although continued cooperation is likely, willingness of some South American debtors to sustain current financial rescue programs could be eroding. Argentina, for example, may try to maintain its growth policies despite banker reluctance to lend new money by continuing its suspension of debt service payments. Chile has nearly exhausted its trade credits and has begun drawing down reserves, risking noncompliance with its IMF-supported program. According to US Embassy reports, President Pinochet—unhappy about rising interest rates and low copper prices—has threatened a debt moratorium by the end of the year if bankers fail to provide additional lending. With Bolivia and Peru already demonstrating unwillingness to adjust through austerity, we fear that these debtors could coalesce into a hardline camp advocating tougher tactics against creditors. [redacted] 25X1 25X1

Such a development would test bank cohesiveness. We fear that the smaller creditors will continue to be less willing to cooperate with debtors, leaving the rescue programs increasingly in the hands of the largest international banks. Bankers are already considering more flexible debt arrangements—such as longer maturities and multiyear reschedulings—to maintain rescue programs. There is a possibility, however, that they will resist any new lending to the intransigent South American countries. [redacted] 25X1

Implications for the United States 25X1

We believe persistent financial difficulties throughout South America probably will cause the United States to run a large bilateral trade deficit. US sales to the region this year will be cut by $300 million from last year's already depressed level of $10 billion. Meanwhile, US imports from the region will probably increase by 4 percent. Latin countries fear that their penetration of US markets will encourage increased US protectionism that, in turn, would reduce their ability to service debt payments to US banks. We judge that tough US import restraints would encourage some debtors to take action against US exports and remittances by US businesses. [redacted] 25X1 25X1

Under current US regulations, we believe that nonperforming loans for US lenders to the region may begin to pile up over the next six months. As noted, Peru and Bolivia are already missing interest payments, and Colombia and Chile could follow before the end of the year. Meanwhile, Argentina may be unwilling to bring its payments current. If these debtors begin to resort to unilateral payments suspensions to relieve their payments problems, we judge that US regulators will also face tougher calls on the quality of these bank loans. [redacted] 25X1

[redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Brazil: Lender Confidence Improving [redacted]

25X1

Trade and payments improvements over the first seven months of this year have led to renewed confidence by foreign lenders and the IMF in Brazil's ability to deal with its debt problems. At the same time, however, Brasilia is facing domestic criticism that austerity measures and triple-digit inflation are suppressing economic activity and hurting living standards. We believe the government—with a presidential election scheduled next January—may permit a moderate loosening of credit or wage controls, but will seek to comply as much as possible with its adjustment program in hopes of getting favorable terms during debt talks this fall. [redacted]

External Gains

Brasilia's IMF-supported program, combined with economic recovery in OECD countries, has led to impressive trade and payments gains, according to the US Embassy. Brazilian officials report that the current account deficit fell below $100 million during the first half of 1984 from $3.3 billion over the same period last year. This improvement reflects the record trade surplus through July, which exceeded $7 billion, already 11 percent above the entire 1983 surplus of $6.5 billion. The US Embassy reports that imports have declined 8 percent—growing domestic petroleum production has enabled Brazil to cut purchases of foreign oil—and record exports have been stimulated by lower labor costs and the devalued cruzeiro. Press reports indicate that trade gains and new foreign lending have enabled Brazil to increase international reserves to over $5 billion and to keep current on foreign debt interest payments. [redacted]

Relations with foreign creditors are better than at any time since 1981. Bankers are encouraged by the Figueiredo administration's efforts to meet payments on debt without seeking new money for 1984 and [redacted] were pleased by Brasilia's moderating influence at the Cartagena Conference of Latin debtor countries in June. The IMF has agreed to renegotiate monetary and fiscal targets to facilitate Brazil's compliance with its adjustment program, and the World Bank has proposed a multibillion dollar development loan, cofinanced with commercial banks. This improved confidence in the Brazilian economy also has reduced capital flight this year, [redacted]

25X1

25X1

25X1

Domestic Shortfalls

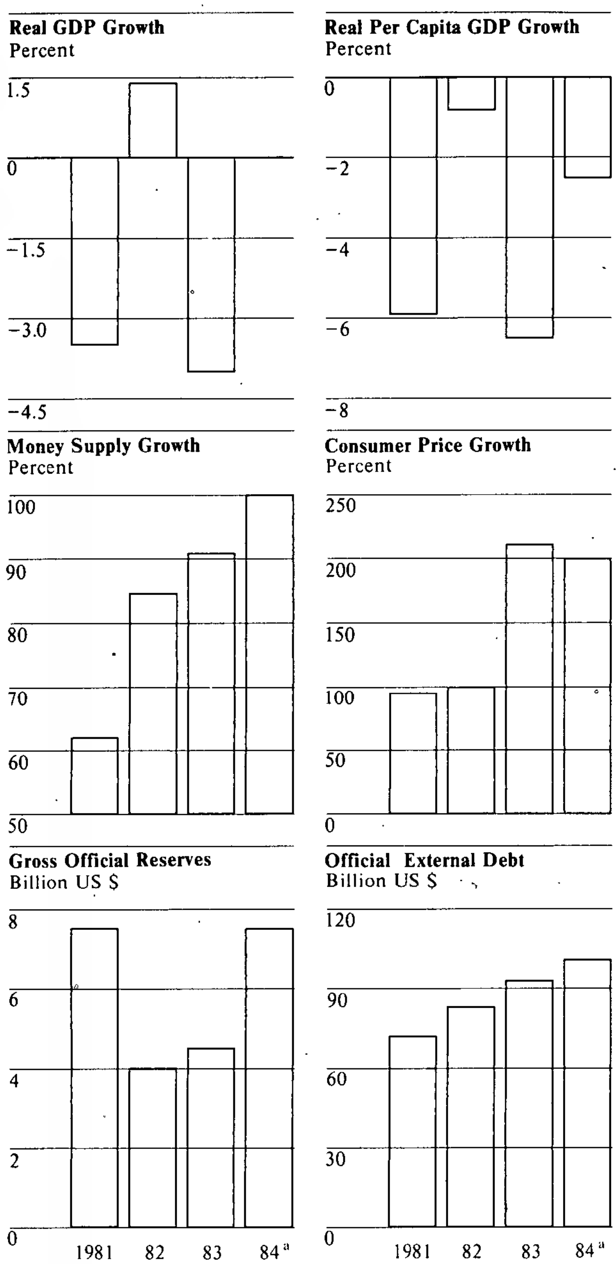
Inflation remains one of Brazil's major problems and has complicated adherence to the IMF-supported adjustment program. The US Embassy reports that consumer prices rose 218 percent in the 12 months ending in July, partly the result of subsidy cuts and rapid cruzeiro devaluations, which are quickly transmitted through Brazil's system of indexed prices. In addition, monetary growth through July exceeded IMF guidelines for the year because the Central Bank continued extending credit to ailing banks and favored economic sectors. Moreover, inflation has pushed public borrowing above IMF targets, according to the US Embassy, despite spending cuts for public investment and consumer subsidies. [redacted] 25X1

Declining real wages have taken a toll on output and employment. Business trade associations indicate that retail sales of automobiles, furniture, and electrical appliances fell by over 15 percent in the first six months of this year, while output of 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Brazil: Selected Economic Indicators, 1981-84



[a] Estimated.

[redacted]

303596 (C00275) 9-84

Brazil: Current Account *Billion US $*

	1982	1983	1984 [a]
Current account	**−16.3**	**−6.9**	**−3.0**
Trade balance	0.8	6.5	11.5
Exports	20.2	21.9	26.5
Primary	10.3	10.6	12.5
Manufactured	9.9	11.3	14.0
Imports	19.4	15.4	15.0
Petroleum	10.1	8.2	6.5
Other	9.3	7.3	8.5
Net services	−17.1	−13.4	−14.5
Net interest payments	−11.4	−9.6	−10.9

[a] Estimated.

[redacted] 25X1

consumer goods dropped 4.1 percent. Unemployed or underemployed workers now account for over 25 percent of the work force, according to press reports. [redacted] 25X1

Outlook

We believe that Brazilian trade and payment accounts will continue to improve this year but that overall economic activity will remain stagnant. Strong gains in exports probably will reduce the current account deficit to $3 billion and enable Brazil to finance increased nonoil imports. Living standards, however, will decline further if inflation, as expected, remains around 200 percent. [redacted] 25X1

Brazilian officials have indicated that they are committed to the IMF-supported adjustment program and will not make major changes in economic policy. Nevertheless, pressure to relax austerity most likely will increase during the fall presidential campaign—the Figueiredo administration is preparing to transfer power to civilian rule early next

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

year—and we believe the government will loosen controls on wages and credit. Although unlikely, a major relapse in Brazil's adjustment program could reverse current IMF flexibility in accommodating policy shortcomings and encourage tougher bank bargaining at Brazil's debt talks this fall. 25X1

Despite concessions aimed at preventing social unrest, Brasilia probably will continue to cut real public spending, reduce subsidies, devalue the cruzeiro, and encourage savings through positive real interest rates. These policies will help Brasilia maintain the good will of bankers and the IMF even if monetary and fiscal performance targets are not met during the second half of 1984. Pressed by domestic dissatisfaction with austerity and emboldened by its external payments strength, we expect Brasilia will press creditors for a multiyear debt-restructuring program and $2-3 billion in new money for 1985 on considerably improved terms. 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Key Debt-Troubled LDCs: Trade Surplus Widens [redacted] 25X1

The trade surplus for the 10 key debt-troubled LDCs[1] climbed in the first half of 1984 to an annual rate of $45 billion, compared with $31 billion in 1983. Most of the improvement stemmed from a surge in exports, particularly to the industrial countries. The aggregate trade surplus of these LDC debtors may continue to grow in the second half, but at a slower rate. The recent decline in the price of many key LDC export commodities and the expected slowdown in the OECD recovery will dampen second-half export gains, and imports probably have been pared nearly as much as possible. [redacted] 25X1

Exports Climb

Exports for most of the 10 key debt-troubled countries rose in first half 1984. Total exports amounted to $105 billion (annual rate) compared with $97 billion in second half 1983. Among the debtor countries, the size of the export gain varied widely. Brazil's exports—aided by the continuing devaluation of the cruzeiro—were up 20 percent over second half 1983, while Mexican exports rose 9 percent. Nigeria showed a moderate drop in exports because of a decline in petroleum sales. Venezuela and Ecuador—the other OPEC debt-troubled countries—had increases, amounting to 6 percent and 12 percent, respectively. We estimate that most of the remaining debtors posted moderate foreign sales gains of 6 percent or less. [redacted] 25X1

The OECD recovery, particularly that of the United States, underpins nearly all of the export gain recorded by the key debt-troubled LDCs. We estimate that first-half Big Seven imports from these LDCs were running at an annual rate of around $78 billion compared with $69 billion for all of last year. US purchases from these countries amounted to $46 billion (annual rate) in the first six months, up sharply from the $39 billion total for 1983. Over the same period, Japan increased its imports from these LDCs by 19 percent. The remaining Big Seven countries showed a moderate rise of about 5 percent. [redacted] 25X1

[1] The 10 countries include Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Nigeria, Peru, the Philippines, and Venezuela. [redacted] 25X1

The Paradox of Declining Commodity Prices and Robust Economic Growth

In the midst of the recovery, commodity prices have taken an unusual turn—they are falling. Since May, the Economist *index of industrial materials has fallen by 11 percent and the metals index by 8 percent. Food prices, which are more seasonal than cyclical, began to turn downward in June. A number of unusual factors seem to be combining to produce the drop in commodity prices:*

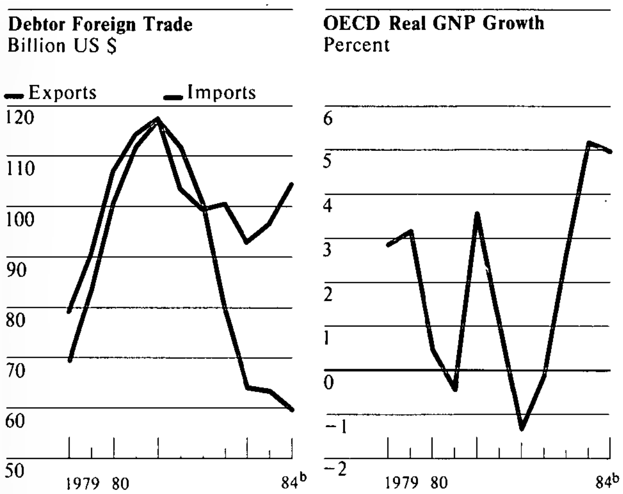
- *High interest rates are depressing investment demand and discouraging inventory building.*
- *The appreciated dollar has dampened prices by forcing US producers to offer commodities at lower prices to remain competitive in international markets.*
- *Low inflationary expectations are playing a role by discouraging commodity users from building large stocks as protection against accelerating prices.*

Technology has also reduced metal consumption per unit of economic output in many applications as substitution of nontraditional materials like plastics and composites erodes metals' traditional markets. For agricultural commodities, forecasts of bumper crops in market year 1985 (July-June) are the main factors behind currently depressed prices. [redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Key Debtor Trade and OECD Economic Activity, 1979-84[a]



[a] Semiannual data, seasonally adjusted at an annual rate.
[b] Projected.

303649 9-84

Imports Leveling Off

Imports continued to decline in the first half, but at a much slower rate than in 1982 and 1983. Foreign purchases plunged from $115 billion in 1981 to $64 billion in 1983. Total imports for the 10 key LDCs fell only slightly in the first half of this year to an annual rate around $60 billion. A few of the debt-troubled countries increased their foreign purchases in the first six months of this year. We estimate that the imports of Chile and Ecuador were up one-third over second half 1983, while Mexican imports climbed 12 percent. On the other hand, Nigeria slashed its foreign purchases by 26 percent in 1984.

Net Effect: Trade Surplus Widens

The substantial gain in foreign sales combined with a slight decline in imports led to a hefty increase in the trade surplus of the key debt-troubled LDCs. The aggregate trade surplus, which tripled last year to $31 billion, widened further to an estimated $45 billion, on a seasonally adjusted annual basis, in the first six months of this year. The four oil exporters—Ecuador, Mexico, Nigeria, and Venezuela—registered a $30 billion surplus, up from $26 billion last year. The surplus for the nonoil exporting debtors tripled to $15 billion. Most of the increase reflected the estimated $11 billion surplus for Brazil. Among the debt-troubled countries, only Colombia and the Philippines had deficits. For both of these countries the deficits, however, were smaller than in 1983. 25X1

The swing from a $4 billion deficit in 1981 to more than a $45 billion surplus has helped the debt-servicing problems of these LDCs. The rise in export revenues has helped to offset increases in interest payments on the debt. Brazil's projected surplus should cover roughly all of its scheduled interest payments in 1984, compared with only 70 percent in 1983. Mexico's estimated trade surplus should exceed its interest payments by $4 billion in 1984. 25X1 25X1

Outlook

In our judgment, a further sharp increase in the trade surplus is unlikely in the second half. Foreign purchases for some countries probably will rise, especially for imports used in export industries. Mexican officials, for example, are projecting an acceleration in foreign purchases in the second half. For these debtor LDCs, imports have been cut 48 percent from their 1981 level and probably cannot be reduced much more. 25X1

While exports may grow further, several factors could inhibit sales gains. The drop in the price of key export commodities such as copper will hamper the trade improvement of countries like Chile and Peru, while a continued weak oil market will limit export gains for the OPEC debtors. Most importantly, the pace of the OECD recovery may slow. 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Trade Trends in Key Debt-Troubled LDCs [a]

Million US $

	1981	1982	1983 [b] First Half	1983 [b] Second Half	First Half 1984 [c]
Total					
Exports	**111,030**	**100,340**	**93,040**	**96,750**	**104,550**
Imports	**114,740**	**89,930**	**64,430**	**63,670**	**59,990**
Balance	**−3,710**	**10,410**	**28,610**	**33,080**	**44,560**
Argentina					
Exports	9,140	7,620	7,490	8,400	8,820
Imports	9,430	5,340	4,600	4,420	4,250
Balance	−290	2,280	2,890	3,980	4,570
Brazil					
Exports	23,290	20,170	21,760	21,940	26,400
Imports	24,080	21,070	17,020	16,660	15,120
Balance	−790	−900	4,740	5,280	11,280
Chile					
Exports	3,990	3,820	3,890	3,780	3,980
Imports	6,360	3,530	2,740	2,780	3,720
Balance	−2,370	290	1,150	1,000	260
Colombia					
Exports	2,920	3,020	2,910	3,090	3,000
Imports	5,200	5,480	5,240	4,700	3,940
Balance	−2,280	−2,460	−2,330	−1,610	−940
Ecuador					
Exports	2,540	2,140	2,270	2,130	2,390
Imports	2,250	1,990	1,470	1,480	1,960
Balance	290	150	800	650	430
Mexico					
Exports	19,560	21,210	20,900	22,010	24,040
Imports	24,070	15,130	7,740	8,620	9,620
Balance	−4,510	6,080	13,160	13,390	14,420
Nigeria					
Exports	19,710	16,560	10,620	12,510	12,000
Imports	19,300	13,570	8,450	8,540	6,350
Balance	410	2,990	2,170	3,970	5,650
Peru					
Exports	3,250	3,260	2,980	3,030	3,060
Imports	3,480	3,600	2,500	2,520	2,160
Balance	−230	−340	480	510	900

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Trade Trends in Key Debt-Troubled LDCs [a] (continued) *Million US $*

	1981	1982	1983 [b] First Half	1983 [b] Second Half	First Half 1984 [c]
Philippines					
Exports	5,650	4,970	4,730	5,040	5,160
Imports	8,470	8,270	8,170	8,170	6,210
Balance	−2,820	−3,300	−3,440	−3,130	−1,050
Venezuela					
Exports	20,980	17,570	15,490	14,820	15,700
Imports	12,100	11,950	6,500	5,780	6,660
Balance	8,880	5,620	8,990	9,040	9,040

[a] Exports f.o.b. and imports c.i.f. are on a customs basis derived from the IMF *International Financial Statistics* and other sources. Imports for Nigeria and Venezuela are estimated from trade partner data.
[b] Data for 1983 and 1984 are semiannual figures expressed at an annual rate.
[c] Estimated.

25X1

The OECD secretariat, for example, is currently forecasting a drop in the real GNP growth rate for the OECD in the second half. A slowdown in the recovery of the industrial countries would dampen the growth of exports of LDCs, which, in turn, would prevent a substantial improvement in their trade balances.

25X1

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

International Financial Situation: A Political Update [redacted] 25X1

Major antigovernment demonstrations occurred this past month in the Philippines, Chile, and Argentina, but they were not as effective as opposition groups had hoped. In contrast, a three-day worker takeover of Bolivia's largest factory was one of the most serious labor incidents in that country in more than a year, and included the mistreatment of hostages. President Jorge Blanco of the Dominican Republic was able to avoid a repeat of last April's violent riots over food price increases by taking massive security precautions before his announcement of IMF-recommended oil price hikes. Nigerian Head of State Buhari is emphasizing nationalism and discipline on a nationwide tour to deflect criticism of his regime's inability to effectively handle mounting economic problems. Liberian Head of State Doe faces serious public and military unease over his crackdown on political opponents. [redacted]

In the **Philippines** antigovernment demonstrations commemorating the anniversary of the assassination of opposition leader Benigno Aquino were peaceful and turned out over 500,000 protestors. The demonstrations attracted a broad range of participants. We believe the Supreme Court's decision to grant permits for the protests defused much of the tension by keeping the military at arm's length from the demonstrators. Although the Communist Party had a strong influence on the protest's program, its front organizations did not cause disruptions. [redacted]

Marcos's political opponents are likely to focus their criticism increasingly on his government's mismanagement of the economy. With the signing of an IMF agreement and the prescribed austerity program imminent, Marcos will be vulnerable to charges from the left that he has "sold out" the country to the IMF, international bankers, and multinational corporations. His moderate opponents are likely to demand a review of the debt crisis in the National Assembly as they prepare to capitalize on the public's dissatisfaction with the economy's continuing slide. [redacted] 25X1

A two-day antigovernment protest in **Chile** on 5-6 September failed to attract the middle-class support needed to reestablish political momentum. The protests were to be a major test of whether opposition groups could overcome differences sufficiently to challenge the regime before political activity is suspended in December for the summer holidays. Organized by the moderate Democratic Alliance, opposition labor, and the Communists, the nationwide protest did not achieve its aim of paralyzing major cities. Most businesses and factories stayed open during at least part of the protest. More shopkeepers and truckers participated than in the past, however, largely because of economic grievances. Violence was largely limited to spontaneous rioting by youths in slum areas and clashes between students and police. We judge that Pinochet will use the rioting as a pretext to intensify his crackdown on the radical left. [redacted] 25X1

25X1

In **Argentina**, the effects of a 24-hour general labor strike last week have been mixed. The strike was about 80-percent successful in key industrial areas but had little impact in some provinces and on banks, schools, and government offices in Buenos Aires, according to press reports. Government officials had hoped to win business and labor agreement on a four-month plan of wage and price controls for combating the country's soaring inflation. Although labor spokesmen told reporters after the strike that they were still interested in negotiations on economic measures with the government, we believe that this first national strike since Argentina returned to democratic rule last Decem-

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

ber is likely to embolden labor opponents further and diminish prospects for a national accord on key economic issues. [redacted]

Alfonsin may be able to turn the strike to his political advantage by pointing out the low turnout in some areas and by accusing the Peronist labor leaders of irresponsibility in tackling the economic crisis. Moreover, he may calculate that the Peronist's apparent weakness would enable him to better weather the political fallout of an IMF agreement. Although wage policy was the main issue, the strike was probably politically motivated, in our view. Almost all strike organizers will soon face union elections and probably calculate that a continued tough posture is vital in attracting support. [redacted]

The takeover of **Bolivia**'s largest factory by workers demanding a 150-percent wage increase last week is contributing to private-sector anxiety about the government's ability to maintain order. According to the Embassy, workers held more than 100 administrators and managers hostage at the Cochabamba shoe factory. The local Chamber of Industry declared a state of emergency and has issued statements critical of the government's ability to protect its citizens and manage the economic crisis. An agreement freeing the hostages awarded workers an immediate 20-percent wage increase that is to be modified depending on the new wage policy adopted by the COB—Bolivia's powerful union confederation—at its national congress currently under way. For President Siles, the incident aggravates tense labor-government relations, making impending austerity measures even more costly politically. [redacted]

Strong security measures, including the arrest of radical leftist and labor union leaders and troop deployment in major cities prevented major demonstrations against **Dominican Republic** President Jorge Blanco's 31 August announcement of an increase in oil prices. In late April the government's announcement of food price hikes as a precondition for the second year of an IMF Extended Fund Facility program triggered riots for several days in which more than 80 people died. Continued infighting in the ruling party, however, threatens the administration's efforts to carry out an unofficial IMF-approved austerity program. The President had tried to convince the public that belt-tightening is necessary, but his ability to build a national consensus is being complicated by conflicts among ruling party leaders over presidential succession and economic policy. [redacted] 25X1

25X1

Head of State Buhari has begun a nationwide tour of **Nigeria** to project more visible leadership and improve the military regime's image. To help deal with pressing economic problems, the government is contemplating moves to boost oil sales, including price discounts, according to Embassy reporting. The government also has been taking an increasingly authoritarian tone to stifle criticism and forestall unrest, particularly within the military. Discipline and nationalism are being emphasized through decrees prescribing stiff punishments for a range of offenses. While this more aggressive style may temporarily forestall reactions to deteriorating economic conditions, the decrees run counter to Nigerian political traditions and will be difficult to enforce. [redacted] 25X1

25X1

Liberian Head of State Doe's popularity has plummeted over his use of soldiers last month to quell student protests against Doe's arrest of opposition leaders accused of coup plotting. [redacted] believe Doe's crackdown on political opponents is heightening public alienation and jeopardizes relations with Western donors. In addition to increasing political disaffection, Doe is finding it difficult to comply with official creditor conditions to satisfy an IMF-supported stabilization program. [redacted] 25X1

25X1
25X1

[redacted] 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Political Unrest and Economic Conditions: A Preliminary Look [1] [redacted]

25X1

On the basis of our examination of economic conditions and political unrest in 28 Third World countries,[2] we have found that general economic conditions can worsen substantially without sparking unrest. We have found, however, that government measures designed to address economic problems can provide a rallying point for public discontent. Indeed, cuts in subsidies on key consumer commodities and government-mandated wage controls seem to be key trigger points for political backlash. Given the extent to which LDC governments are being forced to initiate austerity measures as opposed to simply allowing economic erosion, we expect more economically induced unrest in this decade. [redacted]

Causes of Unrest

According to experts, a wide range of factors—economic, political, and sociological—explains political unrest. Noneconomic factors thought to contribute to political unrest include:

- Tensions between various ethnic and racial groups such as the Sinhalese and Tamils of Sri Lanka, various tribes in Africa, and the ethnic Chinese in Indonesia and Malaysia.
- Conflict between religious factions such as the Shia and Sunni Muslims, the Hindus and Muslims of India, and the Catholics and Protestants of Northern Ireland.
- Loyalties to a subnational group such as the Basques in Spain, the French separatists in Quebec, and the Sikhs in the Punjab.
- Power struggles among elites, such as between the military and businessmen or between intellectuals and the government.
- Externally inspired and financed instability, such as Syrian support for various factions in Lebanon. [redacted]

25X1

Without discounting these noneconomic factors, many contend economic conditions play an important role in fomenting unrest. In periods of strong economic growth, rising expectations could cause problems if the benefits are not shared. Furthermore, a number of experts believe that unrest caused by economic motivations is quite likely after an abrupt interruption in economic growth. According to this theory, in the least developed nations activities focus on subsistence, and people demand very little; in wealthier societies most people act to maintain the status quo. The developing nations in which rapid growth has occurred are the most volatile. In these countries, many have benefited from rapid economic growth and many more have seen its promise. Therefore, when economic growth slows or reverses, expectations continue to rise, a large expectation gap is formed, and a potential source of unrest is created. [redacted]

25X1

25X1

The Historical Impact of Economic Conditions

To systematically examine Third World unrest and its relationship with economic conditions, we devised an overall measure of unrest using a political events data base on protest demonstrations, riots, strikes, armed attacks, deaths from domestic violence, assassinations, political executions, and attempts to overthrow the government. We then analyzed the association between key measures of economic stability and our measure of unrest.

25X1

25X1

[redacted]

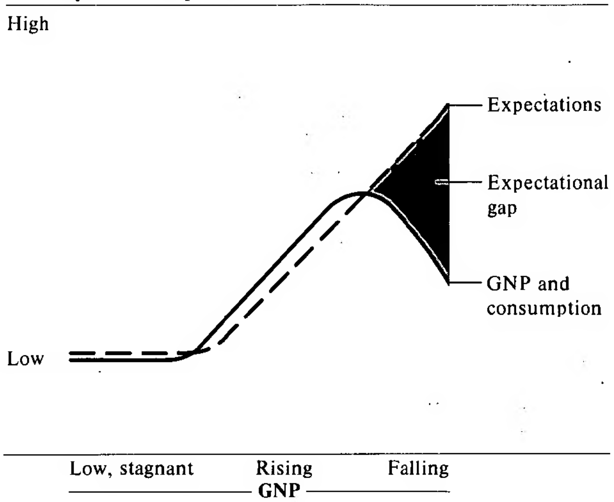
[2] They are Argentina, Brazil, Chile, Colombia, Egypt, El Salvador, Greece, Guatemala, Honduras, Indonesia, Iran, Iraq, Kenya, Mexico, Morocco, Nigeria, Pakistan, Panama, the Philippines, Peru, Saudi Arabia, Somalia, South Africa, South Korea, Spain, Turkey, Venezuela, and Zaire. [redacted]

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Economic Expectations and Political Unrest

Consumption and Expectations



303411 8-84

Specifically, we calculated the statistical linkages between the measure of political unrest and: the change in consumer prices; the level of and changes in real per capita income; and the level of and changes in real per capita imports. These measures were chosen because they reflect general economic conditions in terms of both overall production and prices. In addition, they should reflect trends in other economic variables that affect political unrest, but for which data are not readily available. Changes in unemployment, for example, should be inversely related to the movement in per capita income levels. Likewise, changes in industrial production and import requirements should show a positive correlation.

In our analysis, we looked at the political and economic data from 1971 to 1982 in three different ways. First, we looked at the data head-on: political data for 1981, for instance, were studied against economic data for that same year. We then approached the data using a lag of one year to see if the economic conditions of 1981 affected political unrest in 1982. This allowed time for the impact of, perhaps, a rising inflation rate. Finally, we looked at fluctuations in political and economic data compared to what was typical in an individual country. One or two protest demonstrations, for example, in a highly repressive country would have a greater impact on stability than 10 demonstrations in a society that allows freedom of expression. 25X1

In all approaches, the analysis indicated few direct linkages historically between periods of unrest and periods of deteriorating economic conditions. These results were consistent for each of the 28 countries we examined and for each of several political instability thresholds we used. Our findings showed that although over the past 10 years economic deterioration occasionally has led to unrest, there have been just as many times when it has not. Sharply increasing prices, or declining real income and employment levels by themselves, therefore, are not particularly good predictors of political, military, or social upheavals. 25X1

25X1

Importance of Government Policy Shifts

Although aggregate economic performance is not closely related to political instability, specific economic events can spark unrest. In particular, sudden government economic policy changes—sometimes designed to deal with general economic difficulties—are more likely to generate a public reaction than broad negative economic developments. Numerous anecdotal examples in press and Embassy reporting support this conclusion:

- In Egypt, increased bread prices, caused by subsidy cuts, led to bloody urban rioting in 1977.
- Guatemalan land reform in 1978, viewed by many as collusion between wealthy landowners and the government, led to violent protests. 25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

- In June 1981, a cut in food subsidies led to riots in Morocco; 100 were killed and 300 were injured. Again, in 1983, austerity measures led to a 25-percent increase in food prices, and riots left over 100 dead.

- In Sudan, a decision in 1982 to lower sugar subsidies by 60 percent led to demonstrations and 21 deaths.

- In May and June 1983, over 100,000 Brazilian civil servants marched to protest austerity measures that included wage adjustments and cuts in public jobs spending.

- Last fall austerity-inspired policy changes by the Bolivian Government led to widespread protest. Early this year, labor unions led a 72-hour strike to protest cuts in spending and dramatic increases in the price of government-subsidized food.

- Earlier this year in Tunisia, the government removed subsidies on wheat and bread. Rioting resulted in 100 deaths.

- In April 1984, bloodshed occurred in the Dominican Republic during food riots protesting government-subsidized food.

Although these examples do not indicate that each change in economic policy leads to political instability, they show that specific policy measures that hit key interest groups can have serious political repercussions. [redacted]

Conclusions and Implications

Our preliminary evidence has shown no statistically significant relationship between general economic conditions, such as recession and inflation, and political unrest. We believe, however, that specific government economic measures that directly hurt large segments of the population stand a much greater risk of leading to political unrest. We believe the different outcome here is that action by a government agency provides a tangible rallying point for opposition. [redacted]

We expect more economically induced unrest through the 1980s as LDC governments impose austerity measures. Indeed, adjustment programs—whether self-imposed or coordinated with the IMF—could precipitate increased unrest since the policy changes required by austerity programs are the type that trigger protests and uprisings. Generally, these programs rely on higher taxes, increased fuel and utility prices, and decreased government spending and subsidies—the sort of direct government actions that can lead to direct public reaction. Furthermore, an IMF-supported austerity program can provoke nationalistic reactions as the domestic government is seen as subservient to Western, and especially US, interests. Conditionality programs also make the IMF—and often the United States by association—an actor in domestic politics; opposition parties can accuse the government of selling out to foreign interests. [redacted]

[redacted]

25X1

25X1

25X1

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

25X1

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Page Denied

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0

Sanitized Copy Approved for Release 2011/06/13 : CIA-RDP97-00771R000707170001-0